

REPORT OF THE FOREST REVENUE SPECIALIST  
ON  
KOMUNA INCOME GENERATION AND MANAGEMENT

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## Acronyms

APFDP	Albania Private Forestry Development Program
AFP	Albania Forestry Project
DFS	District Forest Service
DGFP	Directorate General of Forests and Pastures
FAO	Food and Agriculture, United Nations
GTZ	Gesellschaft fur Technische Zusammenarbeit
NGO	Non Government Organization
WB	World Bank

## **Executive Summary**

**A. Background.** About 36 percent of the total land area of Albania (1,026,000 Hectares) is designated as forest while about 16 percent of the total land area (445,000 hectares) is designated as pasture. Albania is currently in a transition from a centrally directed to a market economy. The Government has announced plans to transfer 40 percent of the forest land and 60 percent of the pasture land back to local control over the next 3-5 years.

The Albania Private Forest Development Program (APFDP) has assisted the Government of Albania in this effort by developing a draft strategy for forest transfer and a community manual and training methodology to help villages and Komunas implement the process. The World Bank has supported the Albania Forestry Project (AFP) and has collaborated with the APFDP on forest transfer through joint planning, programming and workshops. The AFP also provides financial and technical support to the Komunas for implementing their management plans. To receive financial support the Komunas are required to form Komuna-level Forest and Pasture User Associations.

A major issue is that the Associations do not generate income from the forests or pastures nor do they receive funds from the Komuna or other state resources. Thus their sustainability is in jeopardy once AFP funds are terminated. Thus the APFDP funded the assistance of a forest revenue specialist to help identify the diverse sources of income within the Komuna/villages and to develop models for local income generation.

The objective of the assignment was; (1) to increase the ability of the Associations, District Forest Service (DFS), Directorate General of Forests and Pastures (DGFP) and local government staff to identify the potential sources of income generation from komuna forests and pastures, (2) to develop models of local revenue generation with particular emphasis on the rights and responsibilities of the Associations, local government and DFS related to the collection and management of revenues from komuna forest and pastures and (3) to lay the groundwork for developing a DGFP strategy for ensuring the sustainability of the Associations based on forest and pasture income generation and management.

## **B. Model for Local Revenue Generation**

### **B.1. Rights and Responsibilities of the Forest and Pasture User Associations.**

The primary responsibility of the Association should be to manage and protect forest and pasture land within their jurisdiction according to the management plan. To fulfil this responsibility, the Association must be given or have the ability to generate sufficient funds to cover, not only the costs of administration but costs of investment as well.

Under current legislation, Forest and Pasture User Associations are classified as NGOs and can not make a profit. If the Associations registered their organizations as Associations of Mutual Collaboration with Economic Activity, they can develop a revenue surplus and not be taxed. Thus it appears that the Associations should use this approach as a means of improving their ability to carry out their responsibilities.

The Associations should be responsible for identifying, evaluating and prioritizing forest and pasture resource invest projects and submitting them to the Komuna for approval and funding. The Association should then have the responsibility of implementing the approved projects.

The Associations should have the responsibility of monitoring forest and pasture management and project implementation to assure that the objectives are achieved and that unforeseen problems do not develop. They should have the right to harvest and process timber and non-timber forest products from state forest and pasture land over which the Komuna has jurisdiction in accordance with legal provisions and related management plans. They should have the right to collaborate and contract with other Associations and Komunas on the use of their forest and pasture areas for a fee.

The Associations should have the right to impose and collect fines and penalties backed by the authority of the Komuna. The revenues generated should remain in the village or be deposited in the respective Association or village account. The purpose of a fine is to discourage illegal activity. In theory the revenue generated should be used to correct the damage caused by the infraction. Thus fines and penalties should be imposed and collected at the village level and used to improve or repair damaged resources. If the deposited in the state treasury, collection will be nil and future transgressions will not be discouraged.

Assuming that the pending legislation which gives ownership of natural resources to the Komunas, is passed, the Forest and Pasture Users Associations should have the right to use other natural resources within the Komuna's jurisdiction.

**B.2. Rights and responsibilities of the Komuna.** The Komuna should provide the bridge between the Central Government and the Associations by taking an advocacy role in presenting Association grievances to the Central Government.

The Komuna should have the responsibility of receiving fees and revenues from the sale of forest products, allocating them according to law and depositing the appropriate share into accounts for each village or Association.

The Komuna should provide facilities and sponsor seminars and workshops on forestry, pasture management and subjects of community interest. The Komuna should have the responsibility of assisting villages and Associations in the identification and evaluation of projects. The komunas must support the villagers in their efforts to evict and fine trespassers. Property rights are a major issue.

### **B.3. Rights and Responsibilities of the Central Government.**

The Central Government should provide the legal framework which supports the effective and efficient management of the forests.

The Central Government should support and fund forest management research focused on addressing problems that are specific to the nation. It should support forest products research to develop new products, improve the quality of old products and foresee changing market demands so that the forest products industry can adjust programs and investment to take advantage of developing opportunities. The Central Government should support and fund extension.

Since 30 percent of the forest revenue goes directly to the Central Government treasury and 70 percent goes to enhance Central Government forest, the Government should provide direct and indirect support of the Forest and Pasture User Associations. For example, the Central Government should pay for the salary and expenses of the Association foresters and fund the administrative costs of the Forest Users Association that are not covered by membership fees. The Central Government should provide additional support to Forest and Pasture User Associations in isolated mountainous areas where communities have special needs due to isolation, lack of infrastructure and distance from markets. In these areas, a greater proportion of the revenue generated by the forests and pastures should be returned to the Komunas and/or the villages for infrastructure development and poverty alleviation.

The Government has announced its intention of transforming its economy from centrally directed to a competitive market. In support of a competitive market the government should consider developing a program to assemble, publish and distribute market information concerning the price of timber and non-timber products by quantity, quality and region on a regular basis. To support the sale and export of Albanian forest products the Government could consider developing and supporting a program which identifies and promotes distinct Albanian products.

### **B.4. Potential Sources of Forest and Pasture User Association Revenue.**

B.4.1. Fees. Fees for membership could provide substantial source of income to Associations. In some areas, fees are collected, in others they are not. Association membership allows members to harvest forest products from the forest at costs below the market price. Thus membership fees should be collected from all members who have the ability to pay.

Fees should also be collected from private owners of agriculture, forest and pasture land as defined by guidelines. These fees are a tax and thus should reflect the productivity of the land. Much of the forest and pasture land which has been reclaimed as private land is degraded and will not produce a return for five or more years. As forest and pasture land becomes more productive, it should be taxed. Since the forest Users Associations are responsible for the management of these lands, the tax should be available to them to cover the costs of management and provide capital for investment. Compliance could be a problem but in most countries, property tax collection is enforced by the ability of the state to seize the land and sell it for back taxes.

A significant percent of the land being transferred to the Komunas for management is pasture land. This land must be managed and grazing limited to the carrying capacity of the land. Since these lands are public lands, managed by the Forest and Pasture User Associations, grazing fees should be collected per animal season and that this fee be made available to the Associations to cover the costs of management and pasture improvement.

B.4.2. Leasing forest land. Additional Association revenue could be generated by leasing forest land use and harvesting rights. Fees and tariffs could be collected from outsiders harvesting medicinal plants. Charging outsiders fees for the right to harvest herbs and medicinal plants would re-enforce the fact that these resources are owned and managed by the Association and that harvesting without authorization is prohibited.

The Associations could generate funds by leasing land within the forest to farmers who wish to cultivate herbs or medicinal plants. Current Guidelines limit the terms of these leases to one year which does not encourage the farmer to invest in the long term potential of the land. It is recommended that these lease periods be increased to attract more farmers to the program.

Leasing land for development and recreation could provide additional income to an Association. The existence of a hot springs that could be developed into a bath, hotel, camping and restaurant complex is an example of a unique piece of land that could be leased for a single purpose.

B.4.3. Sale of Forest Products and Services. An Association could generate additional revenue from the sale of forest products and services. A significant source of revenue could be the sale of forest products surplus to needs of the Association members. Firewood is a product which, if produced in excess of association needs, could be sold on the market. One Forest and Pasture Users Association reported that the forest land under their management produced approximately 500 cubic meters of firewood surplus to the needs of the Association members. At a market value of 1,500 leke per cubic meter, the sale of this surplus firewood would generate 750,000 leke.

Timber produce on Association managed land which is surplus to the needs of the members should also be sold to generate funds. The timber could be sold as a standing tree, a log at the roadside or in a concentration yard. The value of the standing tree, stumpage, depends upon the species, size, quality and location of the tree. Stumpage appraisal or the computation of stumpage values is important because it is a theoretically sound method of determining the appropriate rent or return to the land owner.

B.4.4. Sale of Non timber forest products. Revenue could be generated by licensing and collecting fees for the right to harvest medicinal plants and herbs. The revenue generated could be substantial. For example, the five

major medicinal plants which are or could be annually collected in Shengjergj Komuna would have a value of 755,000 Leke.

B.4.5. Sale of Recreation Licences. Issuing hunting licences and permits could generate additional income for Associations. Currently non-resident hunters pay the District Forest Service between 300,000 and 400,000 Leke per year for permits to hunt in Bubq Komuna. If this revenue was collected by the Associations or villages, it would encourage the preservation of game and game habitat management to enhance the quantity of game available to the hunter. Game ranching could be a possibility in some areas. Pheasant breeding has been suggested as a possible source of revenue in the Bubq Komuna. Fish farming in reservoirs could be another source of revenue.

B.4.5. The Sale of Services. The Forest and Pasture User Associations could become contractors to carry out reforestation and timber stand improvement activities on state land and take an appropriate share as an administration fee. It would not only provide revenue but also increase indigenous skills (project management and accounting skills).

B.4.6. Fines and Penalties. It is estimated that in Albania approximately 100 million leke worth of fines and penalties are imposed each year and only two to three percent of these fines and penalties are collected. The primary purpose of fines and penalties is to discourage illegal activity. In theory the revenue generated should be used to correct the damage caused by the infraction. Thus fines and penalties should be imposed and collected at the village level and used to improve or repair damaged resources. Thus it is recommended that the legal framework associated with the imposition, collection and retention of fines and penalties be reviewed.

## C. Conclusions and Observations

If World Bank funding is terminated, the Forest and Pasture User Associations may have a difficult time covering administration and the investment budget defined in the management plans. There are two ways to balance a budget: increase revenues or decrease costs. In Albania, there is a unique set of circumstances which could allow the implementation of the second approach. Albania has a mediterranean climate, fairly fertile soils and 85 percent of the land being allocated to the Associations for management is scrub oak. Scrub Oak has the advantage in that the best management scheme is to do nothing but watch it grow. If it is protected, in five years some firewood can be harvested and in twenty years the site will support some relatively big trees that can be harvested for construction and other uses. The establishment cost is not zero. It must be protected but compared to reforesting forest land at 150,000 leke per hectare, the rate of return on this minimal investment should be very attractive. Given a limited budget, it appears that the most effective forest management program for this species could be forest stand protection to allow coppice reproduction with the objective of maximizing firewood and fodder production.

Although the afforestation investment outlined above does not appear to be profitable, other studies have shown that some intensive forest management investment can produce respectable returns. For example, a study of the costs and expected results of a poplar plantation in Grekan Village in Elbasani District showed an Internal Rate of Return of 19 percent (Maharremi, 1996).

Pasture improvement is another activity in the management plan. At a cost of 4,000 Leke per hectare, this investment would increase the carrying capacity of the hectare by one animal unit which would allow the Association to charge the user 100 leke per year. Thus a 4,000 leke investment would generate a return of 100 leke per year or .25 percent, a return so low as not to be worth consideration.

Other factors, however, may justify these costly investments. For example, in a study to quantify the benefits of reducing erosion, Pagiola (1995) found that reforestation which reduced sedimentation in irrigation reservoirs produced net present values as high as 170,000 leke per hectare. The results

of this study were very site specific, in term of soil type, slope and the existence of a irrigation reservoir and most of the values were less than 17,000 leke per hectare. However these additional values, when added to other benefits generated by afforestation and pasture improvement may justify some investments. Thus it is recommended that all Forest and Pasture User Association forest management agreements be re-evaluated and that financial and economic returns be computed for each individual activity.

Generally speaking, some Forest User Association programs have been very successful. The successful programs appear to have several characteristics in common: (1) The Associations are at the village level. (2) The forests are given to the village to be managed by the Association. (3) The management plan focuses on producing the products needed by the village, primarily firewood, fodder and thatch. (4) Although it was understood that the forests were to be managed according to the management plans, the villagers were allowed to manage the forests as they wished to meet changing needs. (5) Technical assistance was provided by the regional forester on request and village skills were enhanced through workshops and seminars. (6) Forest products were harvested by the Association, transported to the village and divided among the members. (7) The members could use or sell their share. The result was that the forests were intensively managed to produce the products the village needed and proudly protected from both internal and external trespass. There were some problems but they were the exception. The success of the program far exceeded any problem that developed.

In order to be assured of the continued support, the Forest and Pasture User Associations must provide their members with benefits which are greater than the costs of membership. Thus tangible services and/or benefits that the association can offer its members should be identified and introduced. These benefits could include an extension program, forest products at prices below market value and supplies such as seedlings and forest management and harvesting tools offered to members at a discount. Another services that the Associations could offer their members is micro-credit. It has often been shown that micro-credit at the village level is a very effective method of supporting economic development. With a very little amount of initial capital, the Associations can offer micro-credit to their members, develop the local economy and provide a service which will support and sustain its existence.

As a follow up to this program it is recommended that a series of short courses and workshops be presented at the Central Government, Komuna and village levels. At the Central Government level, a short course could introduce Program Managers to the concepts of project evaluation so that they are able to interpret and use the submissions of their technical staff and manage their programs more effectively. A more intensive project evaluation short course should be given to the Central Government and Komuna technicians so that they are able to present project managers with the information necessary to make informed decisions.

A series of marketing short courses should be presented at the Cental Government and Komuna levels. At the community level, workshops should be presented to strengthen the skills needed to establish and operate Forest and Pasture User Associations.

In Albania, non timber forest products are a substantial source of local employment and income generation. The value of these commodities are increasing. To sustain a continuous flow of production, non-timber forest products must be managed and harvests limited to sustainable production. To capitalize on the benefits that could be generated by an increase in the value of non-timber forest products, a non-timber forest product program should be developed and supported.

The flow of trade has traditionally consisted of exporting raw materials from the rural areas and importing finished goods from the developed areas. Many communities and the surrounding forests have the potential to support small scale forest based industries. Transferring forest land

management to Komunas could substantially increase the opportunity to establish new enterprises. To succeed, innovators and potential entrepreneurs must not only be knowledgeable of the manufacturing processes but must be aware of the costs of capital, labor, and transportation necessary to move a product into the competitive market stream. Given proper guidance, village managed sawmills, furniture manufacturing shops and non-timber forest product processing units are potentially profitable investments for adding value upstream to the forest products produced by local farmers and community forests. It is recommended that the Government assess the opportunities of supporting the development of small-scale processing enterprises in villages and rural areas.

Empirical evidence exists that extending and maintaining all weather roads increases economic activity. All Weather Roads increase the economic availability of commercial forest resources throughout the region. A forest product is only economically available if the value of the final product covers all costs of production. Since transportation costs are usually a significant portion of total costs, reducing these costs through the construction of roads will not only make forest products more valuable, but will increase the physical quantity available to the market. Because forest products generate more revenue for forest land owners, road construction and maintenance will justify and encourage more intensive management of the local forest resources. Thus the Government should evaluate whether additional investment in construction and maintenance of roads is viable in terms of the benefits produced and allocate resources where the investment is warranted.

Forest products producers should be made aware of the Green Movement in Europe and the United States and the resolve to avoid forest products which are not harvested in a sustainable manner. Given the fact that after the transfer of land has been made, most timber and non timber forest products harvested in Albania will be harvested under a sustainable management plan, this movement could actually prove beneficial to an export program and increase the market for and the value of Albania's forest products. The forest product exporters of Albania should take this movement seriously if they are to serve the growing non timber forest product markets of Europe and the U.S.A.

#### C. Actions taken

Based on the above assessments, meetings and field trips, a local revenue generation model was prepared and presented at a round table for review and discussion. During the discussion it was agreed that the proposals for Forest and Pasture User Association income generation should be implemented in two or three pilot Komunas. Bubqi, Gjinari and Stebleva Komunas were suggested.

#### D. Recommendations to Support the Sustainability of Forest and Pasture User Associations by Internal Revenue Generation

1. It is recommended that Forest and Pasture User Associations be allowed to sell production which exceeds their needs to generate funds for association support and resource management investments.

2. It is recommended that a study be carried out to define methodology to determine the residual value of forest products produced by the communal forests so that the appropriate rent can be determined. The study should determine if the benefit allocation encourages and supports forest management investment by the Forest and Pasture User Associations.

3. Regulations which limit the allocation of forest land to Forest and Pasture User Associations to a 10 years period and the time that an individual can lease land for herb or medicinal plant cultivation to one year should be reviewed to determine if a longer time limit would increase the net benefits generated by these resources.

4. It is recommended that these Associations be registered as Associations of Mutual Collaboration with Economic Activity. This would allow them to generate revenue from the forest and pastures and use the funds to cover



administration costs and implement investments defined in the management programs.

5. It is recommended that the Government examine its current extension program and provide additional support in areas where it is determined that the support would be most effective.

6. Since 30 percent of the revenue generated by the forest goes directly to the Central Government and 70 percent is returned to the Associations to implement the forest management plans on forest land owned by the Government, it is recommended that the Government consider paying a greater share of the management costs, including the salary and expenses of the Association forester and the administrative costs of the Forest Users Association that are not covered by membership fees and other revenues.

7. In support of its intention of transforming the economy from centrally directed to a market driven system the government should consider; (1) developing a program to assemble, publish and distribute market information concerning the price of timber and non-timber products by quantity, quality and region on a regular basis, (2) supporting trade missions to nations which represent promising potential markets, (3) supporting the participation of forest product associations and major firms at trade fairs in nations which have potential markets and (4) supporting programs which identify and publish the technical characteristics of Albanian timber and non-timber products that are plentiful enough to export.

8. It is recommended that the system of fine imposition, collection and the policy of allocating the revenue to the state budget be re-evaluated. Ideally the fines should be imposed and collected at the village level so as to discourage illegal activity and remain in the village to correct the damage resulting from the infraction.

9. Current Forest and Pasture User Association management plans dictate intensive management investments some of which appear to offer little chance of producing a satisfactory return. Therefore it is recommended that all Forest and Pasture User Association forest management agreements be re-evaluated and that financial and economic returns be computed for each individual activity. The objective of this examination would be to determine the relevance of each activity given limited Association budgets and to identify more efficient and effective ways to meet forest management goals.

10. It is recommended that the Government support the establishment of micro-credit accounts in each Association and actively pursue fund sources to establish these accounts.

11. As a follow up to this program it is recommended that a series of short courses and workshops be presented at the Central Government, Komuna and village levels. These courses would introduce concepts of project identification, evaluation and implementation. At the village level, basic concepts of Forest and Pasture User Association formation and the rights and responsibilities of Associations as well as the fundamentals of simple bookkeeping and accounting should be presented.

12. To capitalize on the benefits that could be generated by an increase in the value of non-timber forest products, it is recommended that a non-timber forest product project should be developed to identify and quantify the non-timber forest products available in the community forest, to determine the sustainable yield of these products and to develop management and extraction techniques which will sustain or enhance production and transfer this technology to local communities through an appropriate extension program.

13. To capitalize on the opportunities that could develop from the transfer of forest land to komunas ownership and management, a forest product marketing program should be developed. These studies would track specific products from harvest through processing and transportation to the final consumer, quantify current supply and demand in terms of quantity, form, and price and identify impediments which restrict markets. Strategies to match suppliers with

consumers and to reduce the identified impediments could than be developed.

14. It is recommended that the Government assess the opportunities of supporting the development of small-scale processing enterprises in villages and rural areas in communities which have the potential to support small scale forest based industries.

15. It is recommended that the Government evaluate the green movement and its potential effect on Albania's forest product markets, determine certification criteria and procedure and assist Komunas and Associations in the certification process if warranted.

16. It is recommended that the income generating proposals developed as a result of this assignment be implemented in Bubqi, Gjinari and/or Stebleva Komunas.

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## A. Background:

Traditional the basic unit of government in Albania was the village. The village managed its own forest and pastures. Under the Communist regime all property was taken by the state and managed by district-based Forest Enterprises. While originally the forests were managed on an acceptable basis, the expansion of agriculture land, the growing need for firewood, construction material and other forest products resulted in deforestation of much of the accessible area.

About 36 percent of the total land area of Albania (1,026,000 Hectares) is designated as forest while about 16 percent of the total land area (445,000 hectares) is designated as pasture. About 45 percent of the forest land is high forest while 30 and 25 percent is coppice and scrub, respectively (Table 1). Albania is currently in a transition from a centrally directed to a market economy and there is a growing interest in decentralizing the management of the forest land and restoring some form of private ownership. The Government of Albania is in the process of decentralizing forest management through Komuna forest transfers. By means of this process, the forest land (which remains the property of the state) is transferred from the Government of Albania to the Komuna (Ministry of Local Government). The Komuna then issues agreements to villages to manage common forest and pastures and to families for the exclusive use of forest land and management. These agreements are ten year renewable "in use" agreements with provisions that the recipients adhere to approved management plans. The Government has announced plans to transfer 40 percent of the forest land and 60 percent of the pasture land back to local control over the next 3-5 years.

Table 1. Forest and Pasture Area of Albania (Hectares)

	Percent	Area	Percent
High Forest	45	467,000	
Coniferous		172,000	
Deciduous		295,000	
Coppice	30	303,000	
Shrub	25	256,000	
Total Forest Area	100	1,026,000	36
Meadow and Pastures		445,000	16
Total Land Area		2,875,000	100

Source: Shkelqim AGOLLI, Review of Albania Agriculture, Tirana, 2000

The Albania Private Forest Development Program (APFDP) has assisted the Government of Albania in this effort by developing a draft strategy for forest transfer and a community manual and training methodology to help villages and Komunas implement the process. The World Bank has supported the Albania Forestry Project (AFP) and has collaborated with the APFDP on forest transfer through joint planning, programming and workshops. The AFP also provides financial and technical support to the Komunas for implementing their management plans. However to receive financial support, once the transfer has been completed, the Komunas are required to form Komuna-level Forest and Pasture User Associations. At present the major role of the Associations is management plan implementation and the distribution of funds among its members for the forest and pasture operations carried out according to the management plan.

A major issue is that the Associations do not generate income from the forests or pastures nor do they receive funds from the Komuna or other state resources. Thus their sustainability is in jeopardy once the World Bank funds

are terminated. The major two reasons are the legal framework for local revenue generation is not complete and that the majority of forests transferred are degraded and will not generate wood related income for several years. It is, however, possible that revenues could be generated from non-timber forest products and other forest uses. Thus the APFDP decided to fund the assistance of a forest revenue specialist to help identify the diverse sources of income within the Komuna/villages and to develop models for local income generation.

#### B. Purpose or objectives of the visit

The consultancy has three major objectives:

- (1) Increase the ability of the Associations, District Forest Service (DFS), Directorate General of Forests and Pastures (DGFP) and local government staff to identify the potential sources of income generation from Komuna forests and pastures;
- (2) In collaboration with the Associations, DFS and DGFP, develop and discuss models on local revenue generation with particular emphasis on the rights and responsibilities of the Associations, local government and DFS related to the collection and management of revenues from Komuna forest and pastures;
- (3) Lay the groundwork for developing a DGFP strategy for ensuring the sustainability of the Associations based on forest and pasture income generation and management.

The Terms of Reference are shown in Appendix 1.

#### C. Meetings and Participants

The consultant interviewed officials from the DGFP, AFP/PMU, FAO-GCP/ALB, MOAF, MLG, Irrigation Project/PMU, GTZ, AUT/FSF,

Field trips were taken to Elbasani and Librazhdi districts where the consultant interviewed representatives from the Elbasani and Librazhdi District Forest Services, representatives from the Gjinari and Stebleva Forest and Pasture User Associations, officials from local Governments and representatives from the Elbasani and Librazhdi Water Users Association.

Field trips were taken to Shengjergji and Bubqi Komunas where the consultant interviewed representatives of local government and representatives from the Shengjergji Farmer Association and the Bubq Forest Users association. The consultant also attended a meeting of Blinishti Komuna Forest and Pasture User Association in the Lezha District.

The itinerary of the consultant is shown in Appendix 2. The individuals interviewed in Tirana and on field trips are shown in Appendix 3.

#### D. Legislation, Regulations and Guidelines which impact local revenue generation from Komuna forests and pastures.

Albania's primary forestry law is the law on "Forestry and the Forest Police Service" (No. 7223 of October 13, 1992). This law defines the forest estate (state, communal and private) and stipulates that the management of the state forest is the responsibility of the government. A Major regulation which directly impacts the ability of Forest User Associations to generate revenue is the Regulation about the Transfer of Communal Forests and Pastures for their Use and Administration (No. 308 of January 26, 1996). A major Guideline which directly impacts Forest User Association income generation is the "Guideline concerning the management of incomes generated from the forest and pastures (state property) that will be given to the communes for use".

These three decrees, the law, the regulation and the guideline, provide the basis for sustainable Forest and Pasture User Association management of the communal forests. Much depends upon how they are interpreted and

administered. The regulation states that communal forests are state owned forests which are given to villagers to satisfy their demands for timber, fuelwood, pasture and other products. The regulation outlines the transfer process.

Part of the process is to develop a "balance-sheet of demands for fuel wood, fodder and grazing, and to estimate the surface (area)" needed to fulfil these demands. Thus the regulation limits the area of the forest and pasture given to the Forest and Pasture User Associations to that which needed to satisfy the demands of the association members. If a farmer were allocated only the land he needed to feed his family, he would remain a subsistence farmer forever. In many nations where community forests are allocated to user associations for management, an edge effect develops around the community forest boundaries. Since the forest land surrounding the community forest is not protected, over use and trespass soon degrades this forest area. The solution is to protect all of the accessible forest and pasture under some form of User Association allocation and if this provides the Association with an area which is greater than which is necessary to meet the needs of its members, to allow the Association to sell the surplus to generate funds to sustain the organization and invest in community development. (Recommendation 1)

The regulation defines the responsibilities of the Komuna and the Government.

It is interesting to note that the regulation defines that the "role of the Director General of Forestry and Pastures through the District Forest Service" is to provide "funds from its revenues and other resource for the communal forest and pasture development".

The Guideline states that the income generated by state forest and pastures belongs to the Forest Service. "This income will be divided between the state and DGFP according to Law No. 8302 (12.03.1998) which states that 30 percent will be retained by the state and 70 percent will be returned to the community in the form of a reinvestment fund. One of the basic problems with the guideline is the definition and determination of "income generated by state forests and pastures". Since the state owns the land, it is entitled to the rent, which is the value of the forest or pasture product prior to harvest. At any other state of production, the value of the product includes labor and cost of capital used in the processing. The appropriate method of determining the rent is the residual method which is the market value of the finished product minus all costs of production. Since some of the revenue generated by the forests and pastures are in terms of arbitrarily determined fees, it is not apparent that the rent has been identified. Thus the revenue allocated to the state and divided 70-30 percent, may or may not reflect the appropriate share of total revenue generated by the forests and pastures. A second problem is that if all of the rent that is generated by the forest and pastures is allocated to the owner (the state), the manager of the forests and pastures (the Association) will not be encouraged to invest in activities which increase the productivity of the resource since all of the benefit of his investment will be realized by the owner. A method has to be found to share increases in productivity due to activities and investment of the resource managers (the Associations).

To address this problem, it is recommended that a study be carried out to define methodology to determine the residual value of forest and pasture products produced by the communal forests and pastures so that the appropriate rent can be determined. The study should also assess the allocation of rents so that investments in intensive resource management by the Associations is encouraged and supported by benefit allocation. (Recommendation 2)

The regulations stipulate that the time limit for the forest allocation to the Associations is 10 years, renewable if the terms of the agreement have been fulfilled. Although ten years will allow for management activities to generate some fuel, fodder and revenue, it does not provide a sufficient time period to encourage long term investment. Perhaps this problem could be resolved if the land was allocated to the Associations for an indefinite period of time and a review of the management program was carried out every

five or ten years. Regulations also limit the time in which land can be allocated to individuals who wish to plant herbs and medicinal plants to a one year lease. Although the lease can be renewed on a yearly basis, it is definitely a deterrent to long term investment. Since much of the land which could be leased and cultivated is refusal land, currently producing very little in terms of marketable products, this time limit should also be reviewed. (Recommendation 3)

Pending legislation, currently under consideration, states that natural resource property will become property of the Komuna except where prohibited by law. Mines are an example of resource property which would remain state property. Under this legislation, forests, water and pasture would become Komuna property. This change in tenure could resolve a lot of problems which currently inhibit effective management of the resources. Leases could be lengthened to encourage more intensive management of the resource. The revenues generated by the resources could be reallocated to encourage and support the Associations. If this proposed legislation becomes law, the Forest and Pasture User Associations could become Natural Resource User Associations, a title which will reflect their new responsibilities and opportunities. Hopefully, the next step will be that the villages will be given fee simple ownership of their traditional forests, pastures and resources if they form village Natural Resource User Associations and demonstrate the ability to manage the resource.

#### E. Results of discussions, conclusions and observations:

Discussions with Government officials, District Forest Service and local government staff focused on the rights and responsibilities of the Government, the Komunas and the Forest and Pasture User Associations. These discussions also covered the sources, collection and management of revenues from Komuna forests and pastures. The following sections present suggestions that were discussed at these meetings.

##### E.1. Rights and Responsibilities of the Forest and Pasture User Associations.

The Forest and Pasture User Associations should be democratic organizations in which directors are elected and all members are involved in the management decisions. The primary responsibility of the Association should be to manage and protect forest and pasture land within their jurisdiction according to the management plan. To fulfil this responsibility, the Association must be given or have the ability to generate sufficient funds to cover the costs of administration and investment.

To cover administration and management costs a separate account should be set up for each User Association as apposed to being funded from a general komuna account and the Association should have the right to draw funds from this account. Ideally each village would have a separate account so that funds generated within each village could be returned to the village for social, infra-structure or resource investment. Separate accounts will encourage participation and compliance because the Associations know that their contributions will be returned for their use.

Forest and Pasture User Associations are regestered as NGOs and under current legislation, they can not make a profit. If Forest and Pasture User Associations were allowed to make a profit, they could generate revenue from the forest and pastures and use the funds to cover administration costs and implement the investments defined in the management programs. Agriculture Associations have resolved this issue by registering their organizations as an Association of Mutual Collaboration with Economic Activity. This classification allows the associations to develop a revenue surplus and not be taxed. It appears that the Forest and Pasture Users Association should be able to use this approach as a means of improving their ability to carry out their responsibilities. Thus it is recommended that Forest and Pasture User Associations be registered as Associations of Mutual Collaboration with Economic Activity. (Recommendation 4)

The Forest and Pasture Users Associations should be responsible for identifying, evaluating and prioritizing forest and pasture resource investment projects and submitting them to the Komuna for approval and funding. The source of investment funds would be the Association or village account or if allowed to make a profit, surplus funds generated by forest resource related activities. The Association should then have the responsibility of implementing the approved projects. The Forest and Pasture Users Associations should have the responsibility of monitoring forest and pasture management and project implementation to assure that the objectives are achieved and that unforeseen problems do not develop.

The Forest and Pasture User Associations should have the right to harvest and process timber and non-timber forest products from state forest and pasture land over which the Komuna has jurisdiction in accordance with legal provisions and related management plans. The Forest and Pasture User Associations should have the right to collaborate and contract with other Associations and Komunas on the use of their forest and pasture areas for a fee.

Assuming that the legislation is passed which gives ownership of natural resources to the Komunas, the Forest and Pasture Users Associations should have the right to use other natural resources within the Komuna's jurisdiction.

The Forest and Pasture Users Associations should have the right to impose and collect fines and penalties backed by the authority of the Komuna. The revenues generated should be deposited in the respective Association or village account.

## E.2. Rights and responsibilities of the Komuna

The Komuna should provide the bridge between the Central Government and the Associations. For example, the Komuna should take an advocacy role in presenting Association grievances to the Central Government. Of particular concern at the moment, is the delayed remittance of funding to pay for forest management activities.

The Komuna should have the responsibility of receiving fees and revenues from the sale of forest products, allocate them according to the law and deposit the appropriate share into a separate account for each village or Association.

The Komuna should provide facilities and sponsor seminars and workshops on forestry and subjects of community interest such as simple accounting and book-keeping. The Komuna should select candidates from the Forest and Pasture User Associations and fund their attendance at workshops and seminars.

The Komuna should have the responsibility of assisting villages and Associations in the identification and evaluation of projects. Identifying specific projects should remain at the village level but project classes could be suggested at the Komuna level.

Fines and penalties received from Associations and villages would be placed in the appropriate (Association or village) account. The responsibility of imposing and collecting fines should remain at the village level and revenues generated should be deposited in village accounts. The purpose of a fine is to discourage illegal activity. If funds are collected by the village and sent to the Komuna to be deposited in a general account, collection will be nil and future transgressions will not be discouraged. "Why fine your neighbor and make an enemy, if the revenue generated is used in another village?"

The Komunas must support the villagers in their efforts to evict and fine trespassers. Trespass is a problem which was often mentioned and the villagers must have a higher authority which will support them in their efforts of eviction. Property rights are the major issue. Forest and Pasture User Associations spend time and resources to increase the productivity of the forest land that they are managing and trespassers defend their activities by



saying "What right have you to evict us? This is state land and belongs to all of us."

### E.3. Rights and Responsibilities of the Central Government

The Central Government should provide the legal framework which supports the effective and efficient management of the forests.

The Central Government should support and fund research. To remain competitive and to address developing problems, the Central Government should support and maintain a program of forest management research. Forest management research should be focused on problems that are specific to the nation. An effective research program can be developed with limited funds if research efforts are focused on applying the research results that have been developed in other nations to the problems in this country. In addition to forest management research, the Central Government should support a forest products research program to develop new products, improve the quality of old products and foresee changing market demands so that the forest products industry can adjust programs and investment to take advantage of developing opportunities.

The Central Government should support and fund extension. The support of an extension is an important role of the Central Government. Research is the first step. Bringing the new knowledge to the forest where it can be applied is just as important. Extension supports the efficient production of products and keeps the technicians in the field aware of the latest developments in forest management and forest product processing techniques.

Developing basic forest management skills at the village level where forestry is practised is another role of extension. In most nations, extension is the role of the Universities. Here in Albania there are many technically competent University Professors who would be willing to devote a portion of their time to developing an extension program if it were funded. It is recommended that the Central Government increase its support in this area. (Recommendation 5)

The Central Government should provide direct and indirect support of the Forest and Pasture User Associations. The state forests are being passed on to the Komunas "for their use." The Komunas, in turn allocate the forests and pasture to villages and families for their use. Forest and Pasture Users Associations implement the management plan. The owner of the forest remains the Central Government. The revenue generated by the forest is divided into two allocations, 30 percent to the National Treasury and 70 percent to invested in forest management programs which will enhance the value of the state owned forest.

Thus since 30 percent of the forest revenue goes directly to the Central Government treasury and 70 percent goes to enhance Central Government forest, it is only appropriate that the Central Government assume its share of management costs. For example, the Central Government should pay for the salary and expenses of the Association foresters who have been hired to guide the management of the state owned forests and protect the interests of the owners of the forest, the Central Government. It seems appropriate that the Central Government fund the administrative costs of the Forest Users Association that are not covered by membership fees. (Recommendation 6)

The Central Government should provide additional support to Forest and Pasture User Associations in isolated mountainous areas where communities have special needs due to isolation, lack of infrastructure and distance from markets. In these areas which could be identified in terms of poverty, a greater proportion of the revenue generated by the forests and pastures (perhaps 100 percent) could be returned to the Komunas and/or the villages for infrastructure development and poverty alleviation.

The Government has announced its intention of transforming its economy from centrally directed to a competitive market driven system. A competitive

market is a market in which many buyers and sellers know the quantities offered, the demand and the price of their product. In a competitive market the participation of potential buyers and sellers is not limited by trade secrets or the collusion of other buyers or sellers already in the market. In support of a competitive market system the government should consider the following policy options for promoting the marketing and export of forest products. (Recommendation 7)

Timely information of the quantity of products available and prices is one of the pillars of a market economy. Thus the government should consider developing a program to assemble, publish and distribute market information concerning the price of timber and non-timber products by quantity, quality and region on a regular basis. To be effective, the information must be timely and freely available so that buyers and sellers are aware of price developments within their market area and are able to adjust their activity accordingly. In many countries, assembling, publishing and distributing market information is part of research and extension program. Food and Agriculture of the United Nations is currently working on a marketing program and the Central Government should provide as much support and assistance to this program as possible.

To support the sale and export of Albanian forest products the government could consider developing and supporting a program which identifies and promotes distinct Albanian products. The Government should consider supporting trade missions to nations which represent promising potential markets. The Government could support the participation of forest product associations and major firms at trade fairs in nations which have potential markets. The government could consider a policy of supporting firms or associations which open marketing offices in major cities of countries targeted for export.

The government should also consider the support of programs which identify and publish the technical characteristics of Albanian timber and non-timber products that are plentiful enough to export.

#### F. Potential Sources of Forest and Pasture User Association Revenue.

The objective of this report is to identify revenue sources which could support Forest User Association activities. In order to determine if the magnitude of the revenues identified are sufficient to cover the costs, a representative budget must be identified. The budget presented below was assembled from information presented during a recent visit to Bubq Komuna and is assumed to be representative of other Komuna budgets.

#### BUDGET-BUBQ KOMUNA

##### Forest Users Association Administrative Budget

Forester's Salary	120,000
Three guards (6 months)	60,000
Secretary and office supplies	20,000
Per diem and transportation	20,000
Accountant-economist (6 months)	60,000
Total	280,000

##### Investment Budget

Afforestation	10 Ha. X	150,000	1,500,000
Forest Improvement	24 Ha. X	75,000	1,800,000
Improvement cutting	13 Ha. X	30,000	390,000
Pasture Improvement	3 Ha. X	12,000	360,000
Either Oil Plantation	4 Ha. X	400,000	
Total			4,050,000
Administrative Budget			<u>280,000</u>
Grand Total			4,330,000

#### Income generated from the Forest.

Wood material	170 M <sup>3</sup> X 6,000	1,020,000
Firewood	1260 M <sup>3</sup> X 1,700	2,142,000
Ether oil plants	144 kv X 1,885	2,714,000
Grazing		
Sheep and goats	2,880 X 100	288,000
Cows	1,075 X 400	430,000
Fees 1,452 X 500		726,000
Medicinal Plants		1,741,000
Hunting		1,000,000
Fishing		2,261,000
Total		<u>12,234,500</u>

#### Association Income

Firewood	(1,707 Stere M <sup>3</sup> X 150)	256,050
Ether oil	4% X 2,714,000	108,560
Grazing	3,955 Animals X 100	395,500
Fees	735 X 100	73,500
Medicinal plants	4% X 1,741,000	69,640
Hunting	(1,000,000 X 70 percent)	1,000,000
Fishing	(2,200,000 X 70 percent)	2,200,000

Total 4,103,250

70 percent of total 2,872,275

(forest income split 70-30 percent)

The expenditures of the Forest User Association is divided into two sections, Administration and Investment. The original investment budget shows that 12 hectares of Ether Oil plantations were to be established during the first three years at a cost of 400,000 Leke per hectare. The return on this investment to the Forest Users Association was 6,000 Leke per hectare per year because the plantations were to be established on marginal land. At this rate the Forest Users Association would receive a return of 1.5 percent on its investment. This rate is so low that it does not justify further consideration unless other significant non-quantifiable benefits are also produced. Thus this investment cost was not included in this hypothetical investment budget because it would constitute 25 percent of the investment budget and produce an unacceptable return. This example illustrates the fact that each individual investment in a management plan should be evaluated to assess its financial and/or economic return and those that do not produce an acceptable return should be eliminated. The potential revenues have also been divided into two sectors, Total Potential Income Generated from the Forest and Association Income. Given these targets, potential sources of revenue can now be discussed individually.

#### Potential Sources of Forest User Association Revenue.

As every forester knows, forest management must be practised on a site by site basis taking into account soil, slope, aspect and other relevant factors. Forest and Pasture User Association revenue sources also are location specific. They depend upon the products, both timber and non-timber, that can be produced and the productive capacity of the resource. Some Association forests have chestnuts, others honey. Some forests and pastures can produce immediate returns. Others have a potential return that can only be produced after five or ten years of appropriate management. Thus some of the revenue sources apply to all of the Association forests and pastures and others can be considered only in a few. The following are revenue sources that could be considered when assessing possible potential sources to fund Association activities.

##### F.1. Fees

##### F.1.1. Fees from membership.

In some areas, fees are collected, in others they are not. In Stebleve Komuna, for example, most villagers pay a tariff of 500 Leke per family. Compliance is about 70 percent. In Shengjergj, about 1,000 families previously paid 500 Leke per year. The fees are not currently being paid. In Bubq, 735 families out of 1,450 agreed to pay 100 Leke for a year's membership.

In most Forest and Pasture User Associations, the fees allow each family to cut approximately three cubic meters of firewood from the public forest per year for a fee of about 150 Leke per cubic meter. Family needs vary considerably by region. In Shengjergj, the average family burns approximately 10 cubic meters of fuelwood each year while in most regions, 3 cubic meters will meet fuelwood needs. The price, about 150 leke per cubic meter, is a substantial discount from the market price of firewood, which is 2000-2500 leke per cubic meter. The market price includes the cost of processing and transportation and so the stumpage value is less, however the Association member benefits from the opportunity of using his own labor at times in which the demand for his time is not high.

It may lead to difficult decisions but in terms of equity, each family that benefits from membership in an association should share the costs (if, in fact, the family has the ability to pay). To accommodate families which do not have the ability to pay a possible solution could be two forms of membership, a full member and an associate member. A full member would pay fees for forest products and harvest them for personal use. In addition to full members, the board of directors could grant associate membership to those families whose ability to pay membership fees is limited. The revenue that could be generated from membership fees could cover the administrative costs of the Forest User Association budget. In Shengjergj Komuna, for example, there are approximately 1,400 families. At 500 leke per family, the total collected could be 700,000 leke. Assuming 70 percent compliance, revenue generated would total 490,000 Leke which is 175 percent of the estimated Association administration budget.

#### F.1.2. Fees from forest and pasture.

The fees that should be collected from private owners of agriculture, forest and pasture land are defined by guidelines. For agriculture land the fee is 6,000 to 30,000 leke per hectare per year depending upon the productivity of the land. For forest land the fees are 6,000 leke per hectare per year. These fees are a tax which should reflect the productivity of the land. Much of the forest and pasture land which has been reclaimed as private land is degraded and will not produce a return for five or more years. Moreover the fee for agriculture land, which is currently productive, is not being collected. Thus it is unrealistic to attempt to collect annual taxes or fees on forest and pasture land. It is expected, however, that as the responsibilities and expenses of the komunas increase, agriculture land tax will be collected. As forest and pasture land becomes more productive, it too should be taxed and since the forest Users Associations are responsible for the management of these lands, the tax should be available to them to cover the costs of management and provide capital for investment. Compliance could be a problem but in most countries, property tax collection is enforced by the ability of the state to seize the land and sell it for back taxes.

#### F.1.3. Grazing fees could be collected per animal season.

A significant percent of the land being transferred to the Komunas for management is pasture land. This land must be managed and grazing limited to the carrying capacity of the land. Since these lands are public lands, managed by the Forest and Pasture User Associations, it is appropriate that a fee be charged for their use and that this fee be made available to the Associations to cover the costs of management and pasture improvement. Fees could provide a significant source of revenue for the Associations. In Shengjergj for example, it is estimated that the public pastures, which are summer pastures, could support approximately 15,000 animals. Currently, local residents graze 5,000 sheep and 1,000 cows on the land for the five-month

summer season (May through September). Herds from other Komunas also graze the land. Local residents have stated that 50 Leke per animal would not be too much to pay for the season. At 50 Leke per animal, 15,000 animals would generate 750,000 Leke. This is two and one half times the revenue needed to cover the annual administration budget of the Forest Users Association (280,000 Leke). The Guidelines state that the fee for summer grazing should be 100 leke per animal for the season. At Guideline rates, the pastures would generate 1,500,000 Leke or almost five and a half times the revenue needed to cover the Association administration budget.

## F.2. Leasing forest land use and harvesting rights.

### F.2.1. Fees and tariffs collected from outsiders harvesting medicinal plants.

One of the problems mentioned by several dealers and Association members is the harvest of medicinal plants and herbs by individuals from outside the village, the Forest and Pasture Users Association and even the Komuna. It is difficult, perhaps impossible, to manage natural resources on a sustainable basis when trespass is a problem. If, on the other hand, resources exceed the harvesting capacity of the Association members or village residents, harvest rights could and should be leased to outsiders. Fees could be established using the residual value method and harvests could be controlled by Association members. Charging outsiders fees for the right to harvest herbs and medicinal plants would re-enforce the fact that these resources are owned and being managed by the Association and that harvesting without authorization is prohibited. It also could provide significant revenues to the Association account.

F.2.2. Lease land for herb and medicinal plant cultivation. The Forest and Pasture User Associations could generate funds by leasing land within the forest to farmers who wish to cultivate herbs or medicinal plants. Some land classified as "refusal land" has the potential to grow medicinal plants. Current Guidelines limit the terms of these leases to one year. Although a year covers the growing season, it does not encourage the farmer to invest in the long term potential of the land. Some farmers have expressed an interest in herb and medicinal plant cultivation but want a long-term lease to secure their investments (DeCoursey, 1999). It is suggested that the lease period be increased in hopes of attracting more farmers to the program. (Recommendation 3)

Some herbs are cultivated for home use and for commercial sale. In a study on non-timber forest products in four APFDP-assisted Komuna forest transfers Kostreci (2000) found oregano and Rosemary grown commercially and laurel (bay leaves), basil and red clover grown for home use and local markets.

F.2.3. Leasing Land for Recreation. One possible source of revenue is the long-term lease of a unique piece of land for a single use. One example is an entrepreneur in Tregan Komuna who is developing a small hot springs into a bath, hotel, camping and restaurant complex. Currently he does not pay fees and is making substantial investments in spite of the fact that his tenure is not clear. He has a "land in use" title. He attracts about 2,000 clients a year and most of him employees come from the local village. He states that he would gladly pay an annual fee of 20,000-30,000 leke a year to lease the land, if the fee was put into a separate account to be used by the local Association or village. A fee of 20,000-30,000 leke seems nominal given the number of clients that he attracts each year. The fee amounts to 10 to 15 Leke per client. At 30 Leke per client, the fee would amount to 60,000 Leke, an amount equal to half of the salary of the Association forester.

## F.3. Sale of Forest Products and Services.

F.3.1. Timber Forest Products. A significant source of revenue could be the sale of forest products surplus to needs of the Association members. Under current regulations the proceeds would be submitted to the Komuna and split according to the law. Seventy percent could be put into a Association account and be available for resource management investment.

F.3.1.1. Firewood. Firewood is a typical timber product which, if produced in excess of association needs, could be sold on the market. One Forest and Pasture Users Association reported that the forest land under their jurisdiction produced approximately 500 cubic meters of firewood surplus to the needs of the Association members. The value of the firewood in the market was 1,500 leke per cubic meter. Thus the sale of this surplus firewood would generate 750,000 leke. Assuming that the proceeds of this sale were divided 70 percent, 30 percent, as prescribed by the law, the Association should receive an annual return of 525,000 leke to re-invest in forest management. Assuming that in the future there might be some flexibility to allow investment funds to cover some operating costs, this amount is 130 percent of the estimated annual operating cost of the Association. This flexibility is justified because the forester, whose salary is paid by operating funds, will actually spend time on the implementation of investment activities.

F.3.1.2. Timber. Timber produce on Forest and Pasture User Association managed land which is surplus to the needs of the members should be sold to generate funds for the owner of the land (the government) and the manager of the resource (the Association). The timber can be sold as a standing tree, a log at roadside or in a concentration yard. The value of the standing tree is called stumpage. Stumpage values depend upon the species, size, quality and location of the tree. Stumpage appraisal or the computation of stumpage values is important to the owner and manager of forest land because it is a theoretically sound method of determining the appropriate rent or return to the land owner.

F.3.1.3. Non timber forest products. Licensing and collecting fees from medicinal plant and herb harvests. The revenue generated by the collection, processing and sale of medicinal plants from public forest land is substantial. Table 2 shows the quantities collected, values and potential for five medicinal plants collected in Shengjergj Komuna.

Table 2. Five Major Medicinal Plants which are or could be potentially collected in Shengjergj Komuna.

Name	Amount Collected	Price Leke/KV	Total Value	Potential Reserves	Total Potential Value
Rosa canina	15	4,000	60,000	30	120,000
Malus silvestris	10	7,000	70,000	20	140,000
Crataegus monogyna	2	75,000	150,000	5	375,000
Plantago Major	5	6,000	30,000	10	60,000
Melissa officinalis	3	12,000	36,000	5	60,000
Total			346,000		755,000

Licence fees to collect medicinal plants are paid to DFS by the local dealers who then pay harvesters to harvest the plant. The table is a partial list of 16 major plants collected in the area. These fees should actually be paid to the Forest Users Association who manage the resource and could control the harvest. If these fees amounted to 10 percent of total value of the plants collected, the current return to the Association would be approximately 35,000 Leke while the potential return would be 75,000, values which represent about nine and 20 percent of the estimated annual administrative budget of the Association respectively. Ten percent of the total value of all the medicinal plants that are and could be harvested is substantially greater. The residual method, which is used to determine the value of stumpage, could also be used to determine the appropriate value of the right to harvest herbs or medicinal plants.

An example of the magnitude of the revenue that could generated by herb collection was given in Gjinar Komuna where it was reported that an individual had collected 15 tons of rosemary. The market price of rosemary is 100,000 lake per ton. Thus the value of the rosemary was 1,500,000 leke. If 10 percent of this value was allocated to the local Association as a harvesting fee, the allocation would cover about 54 percent of the estimated administration budget of the Association.

F.3.1.4. Hunting Licences. Issuing hunting licences and permits could generate income for Forest and Pasture User Associations. Non-resident hunters have shown that they are willing to pay substantial sums to hunt in areas where game is plentiful. Game available in the Shengjergj Komuna, for example include wild boar, rabbits and game birds. DGFP has declared areas in the Bubq Komuna as a touristic hunting zone. Currently non-resident hunters buy permits from DFS. The amount of revenue generated is between 300,000 and 400,000 leke per year. This revenue should be collected at the Komuna level and allocated to the Association or to the villages in proportion to hunter use of their forests. If the revenue generated by hunting permits is allocated to the Association or village, it would encourage the preservation of game and game habitat management to enhance to quantity of game available to the hunter.

Game ranching is a possibility in some areas. In some countries, wild boars are raised domestically and released into a controlled area where hunters pay to shoot them. Breeding and releasing pheasants would increase the game available in some areas and attract hunters. Pheasant breeding has been suggested as a possible source of revenue in the Bubq Komuna. Fish farming in reservoirs could be a source of revenue. Put and take fishing attracts fishermen who are willing to pay to catch fish in a controlled environment.

F.4. Services. The Forest and Pasture User Associations could become contractors to carry out reforestation and timber stand improvement activities on state land and take an appropriate share as an administration fee. It would not only provide revenue but also increase indigenous skills (project management and accounting skills).

#### F.5. Other miscellaneous

F.5.1. Fines and Penalties. It is estimated that in Albania, approximately 100 million leke worth of fines and penalties are imposed each year and only two to three percent of these fines and penalties are collected. Fines and penalties should not be a revenue source. Their primary purpose is to discourage illegal activity. In theory the revenue generated should be used to correct the damage caused by the infraction. Thus fines and penalties should be imposed and collected at the village level and used to improve or repair damaged resources. The komuna should give the villages the authority and backing to insure collection. It is recommended that the system of fine collection and the policy of dividing the revenue generated be re-evaluated. Thus it is recommended that the legal framework associated with the imposition, collection and retention of fines and penalties be reviewed with the objective that the authority and the revenue remains at the village level to discourage infractions and correct damages caused. (Recommendation 8)

G. Potential sources of income at the individual villager or farmer level. Revenuesources at the farm level which should be mentioned because increasing the cash flow at the farm level will increase the Forest and Pasture User Association member's ability to pay fees, purchase forest products and thus continue to support the Association. Some of these revenue sources are:

1. The harvest and processing of non timber forest products.
2. Developing village based small enterprises such as manufacturing Willow furniture.
3. The cultivation of medicinal plants and herbs.
4. Seedling cultivation.
5. Developing agro-forestry practices, (Tomatoes planted under poplar etc.)
6. Establishing private forest plantations

#### H. Conclusions and Observations

It has been noted that once the World Bank funds are no longer available, the Forest and Pasture User Associations may have a difficult time covering administration and the investment budget defined in the management plan. There are two ways to balance a budget: increase revenues or decrease costs. The first solution may be difficult to achieve but here in Albania, there is a unique set of circumstances, which could allow the implementation of the second approach. Albania has a mediterranean climate, fairly fertile soils and 85 percent of the land being allocated to the Associations for management is scrub oak. Scrub Oak has the advantage in that the best management scheme is to do nothing but watch it grow. If it is protected, in five years some firewood can be harvested and in twenty years the site will support some relatively big trees that can be harvested for construction and other uses. The establishment cost is not zero. It must be protected but compared to reforesting forest land at 150,000 leke per hectare the rate of return on this minimal investment must be substantial. Given a limited budget, it appears that the most effective forest management program for this species could be forest stand protection to allow coppice reproduction with the objective of maximizing firewood and fodder production. Currently Forest and Pasture User Association forest management plans which were developed by optimistic and perhaps idealistic foresters, dictate intensive forest management investments



with substantial initial forest establishment costs.

Although the afforestation investment outlined above does not appear to be profitable, other studies have shown that some intensive forest management investment can produce respectable returns. For example, a study of the costs and expected results of a poplar plantation in Grekan Village in Elbasani District showed an Internal Rate of Return of 19 percent (Maharremi, 1996).

A second activity, which deserves comment, is pasture improvement. The Bubq Komuna Forest and Pasture User Association's forest management plan stipulates that this activity be implemented at a cost of 4,000 Leke per hectare. This investment would increase the carrying capacity of the hectare by one animal unit. Assuming that this additional unit will be used, the Association can charge the user 100 leke per year. Thus a 4,000 leke investment would generate a return of 100 leke per year or .25 percent, a return so low as not to be worth consideration.

There are, however, other factors which may justify reforestation and pasture improvement investments. For example, in a study to quantify the benefits of reducing erosion, Pagiola (1995) found that a reforestation investment, which reduced sedimentation in irrigation reservoirs, produced net present values as high as 170,000 leke per hectare. The results generated by this study were very site specific, in term of soil type, slope and the existence of an irrigation reservoir and most of the values generated were less than 17,000 leke per hectare. However these additional values, when added to other benefits generated by afforestation and pasture improvement may justify some investments.

It is recommended that all Forest and Pasture User Association forest management agreements be re-evaluated and that financial and economic returns be computed for each individual activity. The objective of this examination would be to determine the relevance of each activity given limited Association budgets and to identify more efficient and effective ways to meet forest management goals. (Recommendation 9)

Generally speaking, Nepal has successfully developed a Forest User Association program. This program has been developed by trial and error and many of the concepts that have proved to be successful in Nepal are applicable to all associations. In Nepal, due to a lot of favourable publicity, villages would petition the government to help them form Forest User Associations and to give them forest to manage. The village would form an Association composed of all of the interests and families in the village. The Forest Service would send a team to the village. The team would map and inventory the traditional village forest and together with the Forest User Association they would develop a management plan which focused on producing the products needed by the village.

The products were primarily firewood, fodder and thatch. With a brief ceremony the forests were given to the village to be managed by the forest user associations. Although it was understood that the forests were to be managed according to the management plans, the villagers were allowed to manage the forests as they wished. Technical assistance was provided by the regional forester on request and village skills were enhanced through workshops and seminars. Forest products were harvested by the Association, transported to the village and divided among the members. The members could use or sell their share. The result was that the forests were intensively managed to produce the products the village needed and proudly protected from both internal and external trespass. There were some problems but they were the exception. The success of the program far exceeded any problem that developed. Experience in Nepal has shown that the key to a successful User Association program is to implement the program at the village level, give the ownership of the forest to the village, provide the village with the technical help but allow the village to manage the forest as it wished. Pride of ownership, self-interest and assurance on intergenerational transfer will produce a conservatively managed productive forest.

In order to be assured of the continued support, the Forest and Pasture User Associations must provide their members with benefits which are greater than

the costs of membership. A Potato Growers Association and the Farmers Association in Shengjergj sustains the support of their members by offering significant identifiable benefits. The Farmers association offers an insemination program which produce healthy genetically superior offspring. Because of the combined buying power of its membership, the Potato Growers Association is able to offer supplies and services at discount. Seed is offered to its members at a price which was 10-15 percent lower than the market price. Thus members pay fees on time and additional farmers petitioned the association for membership. In order for the Forest Users Association to remain a viable organization after the termination of the World Bank funding, tangible services and or benefits that the association can offer its members should be identified and introduced. These benefits could include an extension program, forest products at prices below market value and supplies such as seedlings and forest management and harvesting tools offered to members at a discount.

One of the services that the Associations could offer their members is micro-credit, through the association at the village level. It has often been shown that micro-credit at the village level is a very effective method of supporting economic development. Because it is centered in the village and totally transparent, default is almost zero because of the social pressure that can be put on the potential defaulter. It has also been shown that social pressure can also deter default on loans which originate at the Komuna level if the Komuna threatens to withhold all loans to a village if a default occurs. Thus, with a very little amount of initial capital, Forest User Associations can offer micro-credit to its members and provide a service which will support and sustain its existence. It is recommended that sources of funds to establish a micro-credit accounts be actively pursued (Recommendation 10). In fact, if a forest is well managed, it should produce a surplus of funds and this surplus could provide the capital to establish an account.

As a follow up to this program it is recommended that a series of short courses and workshops be presented at the Central Government, Komuna and village levels (Recommendation 11). At the Central Government level, a short course in project evaluation could introduce Central Government Program Managers to the concepts of project evaluation so that they are able to interpret and use the submissions of their technical staff and manage their programs more effectively. A more intensive project evaluation short course should be given to the Central Government and Komuna technicians to present the basic concepts of project evaluation, so that they are able to present project managers with the information necessary to make informed decisions. The course would cover both financial (net present worth, internal rate of return) and economic (benefit/cost ratios) analysis and include hands-on exercises in project evaluation and prioritization.

A series of marketing short courses should be presented at the Central Government and Komuna levels to introduce managers and technicians to concepts covering; (1) How the market economy works. (2) How to gather and use marketing data. (3) How to compete effectively for customers (quality, quantity and on-time delivery). The course would also cover how to identify developing opportunities and threats such as the green movement.

At the community level, workshops should be presented to strengthen the skills needed to establish and operate Forest and Pasture User Associations. Topics covered would include; (1) How to form a User Association. (2) The rights and responsibilities of a User Association and (3) Basic book keeping and accounting concepts. This program could most effectively be carried out by identifying potential trainers and/or leaders at the community level and training them to be trainers. The program would provide them with the knowledge and material necessary to return to their respective villages and repeat the course at the village level. These short courses and workshops are outlined in Appendix 4.

In Albania, non timber forest products are a substantial source of local employment and income generation. Rural farmers collect, process and market herbs, medicinal plants, willow, resins, gums, oil seeds and essential oils.

They also collect a multitude of forest products, such as honey, mushrooms, fruits, nuts, tubers, leaves and wildlife to supplement their diets. Like timber, to sustain a continuous flow of production, non-timber forest products must be managed and harvests limited to sustainable production. Like other forest products the value of these commodities are increasing. As values increase, there are pressures to increase harvests and depletion of the resource is more likely. To capitalize on the benefits that could be generated by an increase in the value of non-timber forest products, a non-timber forest product program should be developed. The objectives of this program would be to:

1. Identify and quantify the non-timber forest products available in the community forest.
2. Determine the sustainable yield of these products and develop management and extraction techniques which will sustain or enhance production.
3. Transfer this technology to local communities through an appropriate extension program.

This project and a project on forest product marketing could substantially increase rural income and enhance Forest and Pasture User Association sustainability. (Recommendation 12)

To capitalize on the opportunities that could develop from the transfer of forest land to komunas ownership and management, a forest product marketing program should be developed (Recommendation 13). The program would track the path of forest products from the initial harvest through processing, transportation, the wholesale and the retail markets. It would identify the quantity, quality and times that the products are available in rural areas and the quantity, quality and timing demands of potential customers. It would also identify impediments which restrict markets and thus limit the realization of benefits by all participants. Strategies to match suppliers with consumers and to reduce the identified impediments could then be developed.

The flow of trade has traditionally consisted of exporting raw materials from the rural areas and importing finished goods from the developed areas. This exchange is obviously to the benefit of the developed areas, while the rural areas lose the value added opportunities. Many communities and the surrounding forests have the potential to support small scale forest based industries. Transferring forest land management to Komunas could substantially increase the opportunity to establish new enterprises. These enterprises would be based on local raw material. To succeed, innovators and potential entrepreneurs must not only be knowledgeable of the manufacturing processes but must be aware of the costs of capital, labor, and transportation necessary to move a product into the competitive market stream. Given proper guidance, village managed sawmills, furniture manufacturing shops and non-timber forest product processing units are potentially profitable investments for adding value upstream to the forest products produced by local farmers and community forests. It is recommended that the Government assess the opportunities of supporting the development of small-scale processing enterprises in villages and rural areas (Recommendation 14). An example is a herb dealer in Lezha District who employed harvesters to harvest sage during the harvesting season. The sage was sold and shipped to central warehouse. In the fall sage was shipped back to her and distributed among the families of the village for sorting, cleaning and packaging. The reason that the sage was shipped from the village to the warehouse and then returned for processing was because she lacked the capital to construct a warehouse to store the sage in the village. If she had the capital to build a warehouse, she would not only be able to capture the two-way transportation cost of the raw product but the value added associated with storage. She may also gain market power and be able to command a higher price for her product. The additional value added and profit could remain in the village and add to the development of the local economy.

Empirical evidence exists that extending and maintaining all weather roads increases economic activity. Roads facilitate bus routes and buses transport goods and people to and from markets, adjacent villages, medical clinics and other service facilities in urban areas where the critical mass of clients justifies their existence. All Weather Roads increase the economic availability of commercial forest resources throughout the region. A forest product is only economically available if the value of the final product covers all costs of production. In the case of timber, the value of the log in the market must be greater than the costs of harvesting (felling, bucking and skidding) and transportation (loading, hauling to market and unloading). Since transportation costs are usually a significant portion of total costs, reducing these costs through the construction of roads will not only make each log more valuable, but will increase the physical quantity of logs available to the market. Harvesters will be able to travel further to harvest logs and still cover costs. Since the appropriate method of computing the royalties is the residual method, all weather roads increase the royalties which are due to the owner of the resource. Because forest products generate more revenue for forest land owners, road construction and maintenance will justify and encourage more intensive management of the local forest resources. Many villages are isolated for three months a year by winter snows. In one village, the lack of access for during the winter was cited as a major deterrent to local investment and the ability to attract foreign capital. Thus roads play an important part in supporting and maintaining the economy of a region and communities and the Government should evaluate whether additional investment in construction, maintenance and/or winter snow clearance is viable in terms of the benefits produced and allocate resources where the investment is warranted.

Forest products producers should be made aware of the Green Movement in Europe and the United States and the resolve to avoid forest products which are not harvested in a sustainable manner. Although this movement has existed for years in Europe, it is expanding in the United States and will significantly effect the choice of forest product consumption. The Council of San Francisco has passed a resolution stating that all tropical forest wood products purchased by the city (primarily furniture) must have certifications that the timber was harvested from managed forest land. A major forest product retail chain in North America (Home Depot) has recently stated that it will only buy and offer for sale, forest products that have been certified "green". Other companies are expected to pass similar resolutions. There is a general campaign by conservation organizations to convince the general public to refrain from making purchases made of non-certified forest products. The certification of various organizations such as the International Union for the Conservation of Nature and the World Wildlife Fund is accepted. After the transfer of land has been made to the Komunas, most timber and non timber forest products harvested in Albania will be harvested under a sustainable management plans. Thus, this movement could actually prove beneficial to an export program and increase the market for and the value of Albania's forest products. The forest product exporters of Albania should take this movement seriously if they are to serve the growing non timber forest product markets of Europe and the U.S.A. The first step is to determine the strength of the movement in potential forest product markets and if certification is warranted. The second step is to determine the criterion used by potential buyers to judge sustainable forest management and the certifications that they are willing to accept. The last step is to develop a certification program that meets the demands of potential customers. Thus the Government should evaluate the green movement and its potential effect on Albania's forest product markets, determine certification criteria and procedure and assist Komunas and Forest and Pasture User Associations in the certification process if warranted. (Recommendation 15)

## I. Actions taken

Based on the above assessments, meetings and field trips, a local revenue generation model was prepared and presented at a round table for review and discussion. The revenue generation model discussed at this meeting is outlined in sections E and F of this report. Participants which included

representatives from local government, DGFP, AFP/PMU, FAO, the Heifer Project International and APFDP staff, are shown in Appendix 5.

During the discussion it was agreed that the proposals for Forest and Pasture User Association income generation should be implemented in two or three pilot Komunas. Representatives agreed to work in Bubqi, Gjinari and Stebleva Komunas. Thus it is recommended that the income generating proposals presented in this report be implemented in Bubqi, Gjinari and/or Stebleva Komunas as a pilot project. (Recommendation 16)

#### J. Recommendations to Support the Sustainability of Forest and Pasture User Associations by Internal Revenue Generation

1. Current regulations limit the area of the forest and pasture given to the Forest and Pasture User Associations to that which needed to satisfy the demands of the association members. In many nations where community forests are allocated to user associations for management, an edge effect develops around the community forest boundaries because the forest land surrounding the community forest can not be protected. The solution is to protect all of the accessible forest and pasture under some form of User Association allocation and if this provides a surplus of products, allow the Association to sell the surplus to generate funds to sustain the organization and invest in community development. To deny the Associations the right to sell surplus production discourages intensive management. Thus it is recommended that Forest and Pasture User Associations be allowed to sell production which exceeds the needs of their members to generate funds for association support and resource management investments.

2. It is recommended that a study be carried out to define methodology to determine the residual value of forest products produced by the communal forests so that the appropriate rent can be determined. The study should also assess the allocation of rents so that investments in intensive forest management by the Forest and Pasture User Associations is encouraged and supported by benefit allocation.

3. Regulations limit the allocation of forest land to Forest and Pasture User Associations to a 10 years period. Although these agreements are renewable if the forest management activities outlined in the agreements are fulfilled, the time limit creates an element of uncertainty. Uncertainty discourages investment.

Regulations also limit the time that an individual can lease land for herb or medicinal plant cultivation to one year. Although this agreement is also renewable, the lack of long term tenure discourages productivity investments. Thus it is recommended that both of these time limits should be reviewed to determine if a longer time limit would increase the net benefits generated by the resource.

4. Currently Forest and Pasture User Associations are classified as NGOs and under current legislation, they can not make a profit. If they were registered as an Associations of Mutual Collaboration with Economic Activity they would be allowed to develop a revenue surplus and not be taxed. Thus it is recommended that Forest and Pasture User Associations be registered as Associations of Mutual Collaboration with Economic Activity. This would allow them to generate revenue from the forest and pastures and use the funds to cover administration costs and implement investments defined in the management programs.

5. Many individuals expressed the opinion that extension efforts should be increased. Bringing the research results to the field where it can be applied is just as important as the research programs that developed the information. Extension supports the efficient production of products and keeps the technicians in the field aware of the latest developments in forest management and forest product processing techniques. Developing basic forest management skills at the village level where forestry is practised is another role of extension. It is recommended that the Government examine its current

extension program and provide additional support in areas where it is determined that the support would be most effective.

6. Currently 30 percent of the revenue generated by the forest goes directly to the Central Government and 70 percent is returned to the Associations to implement the forest management plans. Intensive management enhances the value of the forest which is owned by the Central Government. Thus it is appropriate that the Government should pay its share of the management costs which could include the salary and expenses of the Association forester who has been hired to guide the management of the state owned forests and thus protect the interests of the Central Government. The Central Government could also consider funding the administrative costs of the Forest Users Association that are not covered by membership fees so that they can continue to manage the forests and enhance their value.

7. The Government has announced its intention of transforming its economy from centrally directed to a market driven system. In support of a competitive market the government should consider the following policy options. The government should consider developing a program to assemble, publish and distribute market information concerning the price of timber and non-timber products by quantity, quality and region on a regular basis. The Government should consider supporting trade missions to nations which represent promising potential markets. The Government could support the participation of forest product associations and major firms at trade fairs in nations which have potential markets. The government could consider a policy of supporting firms or associations which open marketing offices in major cities of countries targeted for export. The government should also consider the support of programs which identify and publish the technical characteristics of Albanian timber and non-timber products that are plentiful enough to export.

8. It is estimated that in Albania, approximately 100 million leke worth of fines and penalties are imposed each year and only two to three percent of these fines and penalties are collected. The primary purpose of a fine is to discourage illegal activity. In theory the revenue generated should be used to correct the damage caused by the infraction. It is recommended that the system of fine imposition, collection and the policy of allocating the revenue to the state budget be re-evaluated. Ideally the fines should be imposed and collected at the village level so as to discourage illegal activity and remain in the village to correct the damage resulting from the infraction.

9. Current Forest User Association forest management plans dictate intensive forest management investments with substantial initial establishment costs. Some of these investments appear to offer little chance of producing a satisfactory return. Pasture improvement activities are also recommended in which the benefits may not justify the initial investment. Therefore it is recommended that all Forest and Pasture User Association forest management agreements be re-evaluated and that financial and economic returns be computed for each individual activity. The objective of this examination would be to determine the relevance of each activity given limited Association budgets and to identify more efficient and effective ways to meet forest management goals.

10. Forest User Associations must provide their members with benefits which are greater than the costs of membership. One of the services that an Association can provide its members is micro-credit. It is recommended that the Government support the establishment of micro-credit accounts in each Association and actively pursue fund sources to establish these accounts. One of the sources of capital could be the forest and pasture resources. If they are well managed, they should produce a surplus of funds and this surplus could be used to provide the capital to establish a micro-credit account.

11. As a follow up to this program it is recommended that a series of short courses and workshops be presented at the Central Government, Komuna and village levels. These courses would introduce concepts of project identification, evaluation and implementation. At the village level, basic concepts of Forest and Pasture User Association formation and the rights and responsibilities of Associations as well as the fundamentals of simple

bookkeeping and accounting should be presented. These short courses and workshops are outlined in Appendix 4.

12. In Albania, non timber forest products are a substantial source of local employment and income generation. Like timber products, these products must be managed and harvests limited to sustainable production. As pressures to increase harvests develop depletion of the resource is more likely. To capitalize on the benefits that could be generated by an increase in the value of non-timber forest products, it is recommended that a non-timber forest product project should be developed to identify and quantify the non-timber forest products available in the community forest, to determine the sustainable yield of these products and to develop management and extraction techniques which will sustain or enhance production and transfer the technology to local communities through an appropriate extension program.

13. To capitalize on the opportunities that could develop from the transfer of the ownership and management of forest land to the Komunas, a forest product marketing program should be developed. Market studies could focus on specific forest products. These studies would track specific products from harvest through processing and transportation to the final consumer. They would quantify current supply and demand in terms of quantity, form, and price. They would also identify impediments which restrict markets. Strategies to match suppliers with consumers and to reduce the identified impediments could then be developed.

14. The flow of trade has traditionally consisted of exporting raw materials from the rural areas and importing finished goods from the developed areas. Many communities and the surrounding forests have the potential to support small scale forest based industries. Given proper guidance, village managed sawmills, furniture manufacturing shops and non-timber forest product processing units are potentially profitable investments for adding value upstream to the forest products produced by local farmers and community forests. It is recommended that the Government assess the opportunities of supporting the development of small-scale processing enterprises in villages and rural areas

15. The Green Movement in Europe and the United States is expected to significantly affect choice of forest product consumption and thus potential export markets for Albania's forest products. Given the fact that after the transfer of land has been made to the Komunas, most timber and non timber forest products harvested in Albania will be harvested under a sustainable management plan, this movement could actually prove beneficial to an export program and increase the market for and the value of Albania's forest products. It is recommended that the Government evaluate the green movement and its potential effect on Albania's forest product markets, determine certification criteria and procedure and assist Komunas and Associations in the certification process if warranted.

16. As a result of this assignment a Forest and Pasture User Association revenue generation model was prepared. This model was reviewed and discussed by representatives from local government, DGFP, AFP/PMU, FAO, the Heifer Project International and APFDP staff. During the discussion it was agreed that the proposals for income generation should be implemented in two or three pilot Komunas. Representatives at the meeting agreed to work in Bubqi, Gjinari and Stebleva Komunas. Thus it is recommended that the income generating proposals be implemented in Bubqi, Gjinari and/or Stebleva Komunas.

## K. Appendices

### Appendix 1 Terms of Reference

The consultancy has three major objectives:

Increase the ability of the Forest and Pasture User Associations, DFS, DGFP and local government staff to identify the potential sources of income generation from komuna forests and pastures;

In collaboration with the Associations, DFS and DGFP, develop and discuss models on local revenue generation with particular emphasis on the rights and responsibilities of the Associations, local government and DFS related to the collection and management of revenues from komuna forest and pastures;

Lay the groundwork for developing a DGFP strategy for ensuring Forest and Pasture User Association sustainability based on forest and pasture income generation and management.

#### Scope of work

The consultant will work under the general supervision of the Chief of Party and indirect collaboration with the APFDP,s Komuna Forest Specialist, Small Business Specialist and APFDP Field Team. The activities undertaken by the consultant are expected to include - but not necessarily be limited to - the following;

Review and assess current and proposed GOA (Ministry of Agriculture/DGFP and Ministry of Local Government) legislation and directives on local revenue generation from Komuna forests and pastures;

Interview government officials, DFS and local government staff and Forest and Pasture User Association members to assess the resource needs for komuna forest and pasture income generation;

Undertake field trips to three pilot komunas to evaluate conditions and assess the potential for Forest and Pasture User Association income generation and management;

Assess legislative reality with field (Forest and Pasture User Association) reality;

Based on the above assessments, meetings and field trips, develop one or two local revenue generation models to be presented and reviewed/discussed in a round table with participants of Forest and Pasture User Association representatives, local government DFS, DGFP, AFP/WB and APFDP staff;

Assuming round table concurrence on at least one of the models, develop a strategy and detailed action plan for model implementation in up to three pilot Komunas;

Develop a training package for Forest User and Pasture Association leaders, local government officials, DFS and DGFP staff on Komuna forest and pasture income generation and management.

Present and discuss strategy, action plan and training package in a second round table with the participation of Forest and Pasture User Association representatives, local government, DFS, DGFP, AFP/WB and APFDP staff.

Prior to departure from Albania, the consultant will brief USAID/Albania on the principle activities and accomplishments and findings during the assignment and will prepare a written draft trip report. This report will include a description of the purpose of the trip, officials met and key activities completed/results obtained. Contents of the report will include an executive summary, stated purpose or objectives of the visit, what meetings



took place and with whom, the outcome of the visit, actions taken and recommendations for future local revenue generation action. The final report is to be submitted to Chemonics within five days after the completion of the trip.

#### Deliverables

An agreed upon model(s), strategy and action plan for future Forest and Pasture User Association involvement with the forest income generation and management for up to three pilot komunas;

A training package for Forest and Pasture User Association income generation and management in Albania;

A final report describing the work performed, findings, conclusions and recommendations.

## Appendix 2, Itinerary of the Consultant.

June 29 Arrived in Albania

June 30 Briefing at the Albania Private Forestry Development Program.

July 1 Discussions with Food and Agriculture Organization of the United Nations

July 3 Discussions with GTZ, Dairy Entrepreneurs National Association, Land O' Lakes.

July 4 Discussions with Director General of Forests and Pastures, World Bank, Water User Development-Seksion,

July 5-7 Field trip to Elbasani and Librazhdi Districts. Discussions with the Elbasani and Librazhdi District Forest Services. Discussions with the Gjinari and Stebleva Forest User Associations and local government. Discussions with the Elbasani and Librazhdi Water User Association.

July 8 Attended Blinishti Forest User Association meeting in Leaha District.

July 12 Discussions with Agronomy Faculty, Agriculture University of Tirana.

July 13-14 Field trip to Shengjergji. Discussions with the Shengjergji Farmers Association and Local Government.

July 17 Field trip to Bubqi Komuna. Discussions with Bubqi Forest User Association and Local Government.

July 21 Round Table on strategy for Komuna Forest Income Generation and management.

July 22 Departure

### Appendix 3 Individuals Interviewed and participating in discussions.

Mr. Shaqir ALTAF - Farmer Member of Biza ?Potato Seed Producers? Association Board Shengjergj Komuna, Tirana District

Dr. Fejzo BEGAJ, Country Director, Heifer Project International, Tirana, Albania

Ismail BEKA, Coordinator for Technical Cooperation, Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ), Tirana, Albania

Mr. Mitat BICAKU, Director, Forestry Service Directory, Librazhd, Albania

Mr. Myslym BICAKU - Forest Engineer, Head of Gjinari Forestry Sector, Elbasani DFS

Mr. Filip BROZI Head of Kodheli FUA, Blinishti Komuna, Lezha District

Mr. Nazif CEKREZI Head of Cikalleshi village FUA, Tregan Komuna, Elbasani District

Mr. Trifon CFARKU, Chief of Project Management, Shoqata, Ambjentaliste, Librazhd, Albania

Mr. Trifon CFARKU - Forest Engineer Private Contractor, ?CFARKU? Ltd, Librazhd

Prof.as.Dr. Maxhun DIDI, Director, Forest and Pastures Research Institute, Government of Albania, Tirana, Albania

Hilmar Foellmi, Chief Technical Adviser, Food and Agriculture Organization of the United Nations, Tirana Albania

Mr. Lush GEGA - Forest Technician Forest Inspector, Kallmeti Forestry Sector, Lezha District

Ms. Marije GEGA Herb Dealer, Kallmeti Komuna, Lezha District

Ornela Gjika, Executive Director, Livestock Entrepreneurs Association of Albania, Tirana, Albania

Ms. Ali GJINI - Forest Technician, Komuna Forester - Stebleva Komuna, Librazhdi District

Mr. Pellumb GJINI Head of Stebleva Komuna, Librazhdi District

Mr. Osman HALA - Economist Member of Shengjegji Komuna Council, Tirana District

Mr. Agim IDRIZI, Director, General Directorate of Forestry and Pastures, Directorate of Forestry and Pastures, Tirana, Albania

Ms. Merita Janushi, Deputy Director, International Development Division, Land O'Lakes, Inc. Tirana, Albania

Dr. Genci KACORI, Director, General Directorate of Forestry and Pastures, Directorate of Forestry and Pastures, Tirana, Albania

Mr. Ever KOCI - Forest Engineer Head of Forestry Management Section, Librazhdi DFS

Mr. Haki Kola, Director of PMU, Albania Forest Project, World Bank, Tirana, Albania

Dr. Irma Konomi, Executive Director, Dairy Entrepreneurs National Association, Tirana, Albania

Mr. Bajram KULLOLLI - Forest Engineer Forest Inspector of Forest and Pasture Management, Librazhdi DFS

Mr. Ndue LLESHI - Forest Technician Komuna Forester - Blinishti Komuna, Lezha District

Mr. Sherif LOKA Herb Dealer, Bubq Komuna, Kruja District

Mr. Sure LOKA - Forest Technician Komuna Forester, Bubq Komuna, Kruja District

Mr. Ahmet MEHMETI - Forest Engineer, AFP/PMU Supervisor for Elbasani Region

Mr. Rrok MARKU Head of Blinishti Komuna, Lezha District

Mr. Zija MASHA Bubq Komuna, Kruja District

Dr. Maksim MECO, Assistant Professor, Agricultural Economist Farm and Agrobusiness Development Department Agronomy Faculty, Agriculture University of Tirana

Mr. Arben MOLLA, Director, Agriculture Program Office, Ministry of Agriculture and Food, Tirana, Albania

Mr. Mark MUFALI, Head of Gjinari FUA, Elbasani District

Dr. Bahri MUSABELLIU, Associate Professor, Farm Management and Agribusiness Department, Agriculture University of Tirana, Tirana, Albania

Mr. Shpetim MYRTE - Forest Engineer Inspector of Bubq Forest Sector, Kruja DFS

Mr. Pjeter NDOKA Head of Kallmeti Vogel village, Kallmeti Komuna, Lezha District

Mr. Tonin NDREKA - Forest Engineer Forest Inspector of Forest and Pasture Management, Lezha DFS

Mr. Pellumb OGA, Head of Gjinari Komuna

Mr. Refat PRECI - Agronomist Komuna Forester - Gjinar Komuna, Elbasani District

Mr. Dede PRENGA - Forest Engineer, Director of Elbasani District Forest Service (DFS)

Mr. Shkelqim Prrini Bubq Komuna, Kruja District

Mr. Agim PUDJA - Agronomist Head of Biza ?Potato Seed Producers' Association Shengjergj Komuna, Tirana District

Mr. Sefedin ROSHI - Vet Specialist Member of Shengjergji Farmer Association Shengjergj Komuna, Tirana District

Mr. Mirjeta TACI - Forest Engineer, Komuna Forester - Tregan Komuna, Elbasani District

Mr. Ernest TUKU Head of Komuna Council, Blinishti Komuna, Lezha District

Mr. Reshit XARA - Vet Specialist, Head of Shengjergji Farmer Association Shengjergj Komuna, Tirana District

Mr. Ded ZEFI Komuna Forest Guard - Blinishti Komuna, Lezha District

## Appendix 4: FOLLOW UP SHORT COURSES AND WORKSHOPS TO SUPPORT FOREST USER ASSOCIATION REVENUE GENERATION.

Short Course number 1.

### A. Project Evaluation

1. Background and Justification; The Central Government has the responsibility to manage the national forest for the benefit of all citizens of Albania. In the process of managing national forests, the Central Government must allocate funds to support forest management projects. Because funds are limited, the Government must choose between alternative projects and prioritize the projects chosen. The most effective method of choosing and prioritizing projects is by analyzing alternative projects by means of standard economic and financial techniques. Ideally project analysis is carried out at the district or Komuna level and the results are presented to the Central Government for consideration. Because of a history of a centrally directed economy, the field staff and the staff at the Central Government level are not familiar with standard economic and financial analysis methodology. To effectively submit project evaluations the field staff must be able to carry out economic and financial evaluations on their respective projects. To evaluate submissions from the field staff, the managers and decision-makers at the Central Government level must understand the basic concepts of financial and economic analysis.

It is also essential that each project within a management plan be evaluated to determine if the project contributes to the overall benefit realized by society or the institution or organization funding the project. The Forest and Pasture Users Associations have the responsibility to manage their forests according to a management plan. Data from two of these management plans implied that the return expected on the implementation of several projects was less than two percent. Unless funds are available at subsidized rates, the implementation projects producing returns of this magnitude can not be justified. Other projects included in these plans may produce returns which are significantly higher. If funds are limited, all of the projects in a management plan should be evaluated so that the optimum combination of projects can be chosen within the constraints of the funds available.

2. Target Groups: Target groups include two classes;

(A) Central Government field staff at the District level who are responsible for the identification of potential forest management projects and the implementation of forest management plans.

(B) Central Government decision makers and program managers which have responsibilities pertaining to the management of the forest resources of Albania. (Directorate General of Forests and Pastures and other Directorates)

3. Objectives of the Course: To introduce Central Government field staff to the basic concepts of financial and economic analysis so that they can effectively evaluate potential projects and submit these evaluations for funding. To introduce Central Government decision-makers and program managers to the basic concepts of financial and economic analysis so that they can use submissions from field staff to make informed decisions.

### 4. Course Outline

#### 1. Purpose of Project Evaluation

- 1.1. Limited capital
- 1.2. Mutually exclusive projects
- 1.3. Most donors require evaluation.

2. Definition of a Project and its relation to programs, plans, strategy and policy.

3. Two Approaches to Project Evaluation
  - 3.1. Financial Evaluation
  - 3.2. Economic Evaluation
4. Evaluating public projects:
  - 4.1. Three approaches:
    - (1) Cost Effectiveness
    - (2) Financial Analysis
    - (3) Economic Analysis
5. Interest Rates
6. Risk and Uncertainty.
7. Discount rates for public projects.
8. Benefit/Cost Ratio application.
9. Choosing Among Alternative Projects.
10. Environmental Impact Analysis.

#### **Short Course Number 2.**

B. Project Identification, Formulation, Evaluation, Implementation (Management) and Monitoring.

1. Background and Justification: Forestry projects should be identified, evaluated and implemented at the Forest User Association level because appropriate forest management programs are site specific. Thus the skill to identify and implement forestry projects should be developed at the village level. Project evaluation techniques should be available at the Komuna level so that Komuna or district Forestry staff can assist Forest User Associations in the evaluation of forestry projects. Developing project evaluation skills at the Komuna level is addressed in the short-course described above.

2. Target Group: The target groups are Forest User Group foresters and foresters managing national forest at the district or Komuna level. Key Forest User Association representatives should also be included because they will play critical roles in the identification and implementation of forestry projects.

3. Objective of Course: The objective of the short course is to develop project identification, formulation, evaluation and management skills at the Komuna and Forest User Association levels so that the optimum combination of forest management projects can be identified, selected and implemented so as to maximize benefits realized by the association members given a limited budget.

#### **4. Course Outline**

1. Introduction
2. Scope of Project Planning
3. Project planning Cycles
  - 3.1. Identification
  - 3.2. Formulation
  - 3.3. Evaluation
  - 3.4. Implementation (Project management)
  - 3.5. Monitoring

### **C. Short Course Number 3; Forest Product Marketing**

1. Background and Justification; The potential contribution of many forest products to the local, regional and national economies of is not realized because producers and decision makers at the central, district and village level do not have the knowledge to effectively market forest products.

2. Target Group; Decision-makers and program managers at the Central Government Level which have responsibilities pertaining to the management of the forest resources of Albania. (Directorate General of Forests and Pastures and other Directorates) The target groups should also include Forest User Association foresters and foresters managing national forest at the district or Komuna level. Key Forest User Association representatives should also be included because they will play critical roles in the

3. Objective of Course; To increase decision makers and producers knowledge of markets for timber and non-timber forest products, to assist the producers of selected products to understand market alternatives, to encourage better linkages between producers, processors and/or manufacturers and exporters, and to encourage farm and community production increases of high value forest products.

#### **4. Course Outline;**

1. The Fundamentals of Marketing
  - 1.1. Supply and Demand
  - 1.2. Market Structures
2. Identifying potential products and opportunities
3. Identifying potential markets
  - 3.1. Mass marketing
  - 3.2. Niche marketing
  - 3.3. Identifying new markets
  - 3.4. Evaluating market potential
4. Products
  - 4.1. Products differentiation
  - 4.2. Labelling
5. Distribution
  - 5.1. Intermediaries and their role
  - 5.2. Channels of distribution
  - 5.3. Physical Distribution
6. Pricing
  - 6.1 Objectives and Strategies
7. Market Knowledge
  - 7.1. Market Information and Research
8. Strategy for promoting and marketing products
  - 8.1. Knowing your customers needs, wants and attitudes
  - 8.2. Profiting from the Green Movement
9. Pricing Forest Resources
  - 9.1. Timber and non-timber forest products and rent
  - 9.2. Determining the appropriate rate of royalties and stumpage

### **D. Short course Number 4, Forest User Association Support**

1. Background and Justification; The Government of Albania is in the process of transferring the 40 percent of the forest land and 60 percent of the pasture back to local control to be managed by User Associations. The success of this program depends upon developing skills at the village and Komuna level to enable farmers and village inhabitants to form and operate user associations and to carry out the resource management responsibilities of these user groups. Thus a short course should be presented to enable local residents to form user associations. A second focus should present natural resources management techniques so that the associations are able to use the most effective methods to manage their resources.

2. Target Group; The participants of the course should be selected from

the Forest and Pasture User Associations and villages as potential trainers. After the course these participants should be able to return to their respective associations or villages and present the knowledge that they have acquired in follow-up courses held at a local level.

3. Objectives of Course; To promote the sustainable harvest of forest products, to encourage farm and community production of high value of high value forest commodities and to promote value added processing at the community level.

To develop the self confidence of all of the members of a Forest User Association so that by means of a democratic process, each member is able to understand the implications of the decisions made by the association and participate in the decision making process.

#### 4. Course Outline

##### 1. Empowerment

###### 1.1. Individual rights and the ability to form an association

##### 2. Bookkeeping and Accounting

###### 2.1. Starting a bookkeeping system

###### 2.1.1. The importance of bookkeeping records

###### 2.1.2. The balance sheet

###### 2.2. Recording income and expenses

###### 2.2.1. Posting individual entries

###### 2.2.2. Checking and proving the accuracy of postings

###### 2.3. Producing a profit and loss statement and balance sheet.

##### 3. Renewable natural resource management

###### 3.1. The concept of renewability

###### 3.2. Inventories and their uses.

###### 3.3. Development of a management plan

###### 3.4. Calculation of allowable harvests

3.5. Identification of individual plants that could be managed for the collective benefit of the association members.

###### 3.5.1. Harvesting methods to enhance sustainability

###### 3.5.2. Harvesting methods to ensure quality of product



## **E. Short course Number 5, The Application of Micro and Macro Economics in Forestry.**

1. Background and Justification; The Central Government of Albania has announces its intention of adapting a free market economy and allowing the market place to determine production, consumption and the allocation of forest products. Forest economics is an applied science. Forestry has unique characteristics which are not found in other agriculture or industrial enterprises. The science of forest economics has been developed to take these unique characteristics into account. Each region has its own unique problems and forest economic evaluation techniques must be adjusted to fit the unique problems of the region. Because the economy of Albania was centrally directed, Government staff do not have the skills or techniques to apply economics to forestry problems. In order to maximize the benefit that the forest sector could generate, Government staff should develop these skills.

2. Target Group; Middle management and decision-makers in natural resource directorates on the Cental Government. Because of its forestry orientation, the staff of the Directorate General of Forests and Pastures (DGFP) would be ideal candidates for this short course. Participants could also include upper level field staff in the districts who have sufficient academic training to allow them to benefit from the course (Degrees in forestry or natural resource management).

3. Objective of Course; To strengthen the capacity of the Central Government (Directorate General of Forests and Pastures) to enable it to assume its role and responsibilities in the context of the transition from a centrally directed to a market economy in forest products.

To increase the human resource capacity at the national level to develop and adapt new market economy approaches and systems for the benefit of the public and other agents and institutions which have a stake in the forest products sector.

To strengthen the capacity of the Central Government (Directorate General of Forests and Pastures staff) to apply the principals of micro and macro-economics in forestry practices to ensure economic efficiency and promote the role of the forestry sector in the market economy.

### **4. Course Outline**

#### **1. Introduction**

##### **1.1. The Importance of Economics in Forestry**

###### **1.1.1. Micro-economics and Macro-economics**

###### **1.1.2. Forest Economics and the Role of the Forest Economist**

#### **2. Basic Elements of Supply and Demand**

##### **2.1. The Demand Schedule**

##### **2.2. The Supply Schedule**

##### **2.3. Equilibrium of supply and demand**

##### **2.4. Comparative Statistics**

#### **3. Theory of demand**

##### **3.1. Elasticity of Demand**

##### **3.2. Elasticity of Revenue**

##### **3.3. Determinants of Elasticity**

##### **3.4. Utility Analysis of Demand**

##### **3.5. Individual to Market Demand**

##### **3.6. Derived Demand**

#### **4. Theory of Production and Supply**

##### **4.1. The Production Function**

##### **4.2. Economic Analysis of Costs and Revenue**

##### **4.3. Economics of Supply**

##### **4.4. Opportunity Costs**

##### **4.5. Marketing Projections for Demand and Supply of Timber**

#### **5. Pricing of Factor Series**

##### **5.1. Forest Land, Natural Resources and Rent**

##### **5.2. Capital and Interest**

##### **5.3. Determining the Appropriate Rate of Royalties or**

- Stumpage
- 6. Economic Analysis of Investment Decisions
  - 6.1 Financial Analysis and Economic Analysis
    - 6.1.1. Net Present Value
    - 6.1.2. The Internal Rate of Return
  - 6.2. Evaluating Public Projects
    - 6.2.1. Cost Effectiveness
    - 6.2.2. Economic vs. Financial Analysis
    - 6.2.3. Supporting Information for decision makers
  - 6.3. Choosing Among Alternative Projects
- 7. Introduction to Macroeconomics
  - 7.1. National Income Accounting
  - 7.2. Determinants of National Income
  - 7.3. The Money Market
  - 7.4. Monetary and Fiscal Policy
  - 7.5. Inflation
  - 7.6. Stabilization Policy
    - 7.6.1. Demand Management
    - 7.6.2. Price Controls
- 8. International Trade
  - 8.1. Advantages of Trade
  - 8.2. Absolute and Comparative Advantages of Production
  - 8.3. Tariffs and Quotas - Trade Distortions
  - 8.4. Export Subsidies and Non Tariff Barriers
- 9. Problems and Practices Exercises

## Appendix 5: Participants in the Round Table Discussion

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